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Dairy and Products

Annual Report

2007

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Report Highlights:

Taiwan milk consumption continues to grow from a small base, and Taiwan milk production continues to expand slowly. Operating in one Taiwan's few profitable agriculture sectors, local dairy farmers increased milk production from 323 TMT in 2006 to an estimated 340 TMT in 2007. Growth is expected to decelerate slightly in 2008, but demand is expected to continue to expand. While the U.S. is not competitive in the export of most dairy products to Taiwan, we have been gaining market share in select high value items like cheese and whey.

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Executive Summary

Taiwan milk consumption continues to grow from a small base, and Taiwan milk production continues to expand slowly. Operating in one Taiwan's few profitable agriculture sectors, local dairy farmers increased milk production from 323 TMT in 2006 to an estimated 340 TMT in 2007. Growth is expected to decelerate slightly in 2008, but demand is expected to continue to expand. While the U.S. is not competitive in the export of most dairy products to Taiwan, we have been gaining market share in select high value items like cheese and whey.

Data included in this report is not official USDA data. Official USDA data is available at <http://www.fas.usda.gov/psd>.

Required PSD tables for Dairy, milk, fluid; Dairy, dry whole milk powder; Dairy, milk, nonfat dry and butter are at s:\GAIN\GAIN Working Draft Documentation\2007 draft reports\MILKFL.XLS; MILKND.XLS; MILKWH.XLS and BUTTER.XLS, followed by a statement of "Not Official USDA data" at the bottom of PSD tables.

Production

In 2006, a total of 323,165 mt of cow milk was produced, from 636 registered dairy farms. Production is estimated at 340,000 mt in 2007 and is projected to increase slightly in 2008. Taiwan's goat milk production totaled 18,581 mt in 2006. Production is expected to continue to decline in 2007 and 2008.

Encouraged by world dairy price hike, Taiwan farmers may want to expand their herd sizes. In reality, it is difficult for farmers to increase production rapidly because they are dependent on imports for almost all inputs, seedstock, feed, etc.

Dairy farming has been one of the few profitable industries in Taiwan's agricultural sector. According to the Council of Agriculture, a dairy cow created NT\$43,792 (US\$1,350 equivalent) of profit in 2006. Over half of the production cost was spent on feed (NT\$56,199 out of a total of NT\$100,292). Milk production was 6,644 kg per cow in 2006.

Taiwan's dairy farmers also need to combat the global price hike on feed like their counterparts elsewhere. With the agricultural authority's intervention, the purchase prices for raw milk, paid by processing plants to farmers, were increased by NT\$3/kg in July 2007 in response to farmers' outcry over increased production cost resulted from skyrocketing global feed price hike. The new prices are: NT\$18.24/kg for winter season (December to March); NT\$25.73/kg for the summer season (June to September); and NT\$23.73/kg for the warm season (April, May, October and November). (Prices vary slightly with the fat contents. Current exchange rate is approximately NT\$32.4=US\$1.)

To reflect the price increase on raw milk, retail milk prices were raised accordingly. In September 2007, the three leading processing plants, whose production accounts for over 70 percent of fresh milk on Taiwan, were fined for NT\$10 million by the Fair Trade Commission for "inappropriate price hike" not for concerted action on price raise. The fine was not able to stop the overall price increase of fresh milk in retail.

The tropical and sub-tropical climate is not the best environment for dairy production. Taiwan produces no other dairy products (cheese, whey, etc.) in commercial quantities.

Consumption

The Taiwan populace did not traditionally drink milk and are not regular dairy product consumers. However, with increased income and knowledge of the nutritional value of milk, consumers are gradually incorporating dairy products, mainly fresh milk into their diets. The relatively expensive local fresh milk is virtually all for the consumer-ready fresh consumption, including some limited flavored milk and yogurt drink. The only processed dairy product has been small amount of milk powder produced by one processing plant out of surplus milk during the winter. Annual production of milk powder is estimated at 1,000 mt (out of 8,000 mt of raw milk) during the winter time. Demand of other dairy products is met by imports.

There are 19 dairy processing plants on Taiwan, with only three in significant size and process over 70 percent of total raw milk into consumer-ready fresh milk.

Council of Agriculture reported a 15.36 kg per capita consumption of fresh milk; 3.96 kg of milk powder; 1.64 kg of other milk (yogurt drink, etc.) as well as 0.68 kg of butter in 2006. Dairy consumption, especially processed products, is still far behind that of advanced countries.

Milk output tends to be highest during the cooler winter months (October through March) while consumption patterns for fresh milk run in reverse. Consumption peaks in the hot summer but shrinks in the cooler winter.

Driven by a combination of climate changes, trade policies and competition for cattle feed from biofuel producers, global milk prices have doubled over the last two years. First time in history, production cost of reconstituted milk from milk powder reached the same level as locally produced fresh milk in 2007. Consumer concerns about reconstituted milk being labeled as fresh milk no longer exist in 2007.

Fluid milk is supplied virtually all locally. Retailers have been successful in creating fluid milk sub-segments by introducing health-focused additives. More diversified milk drink products are expected in the Taiwan market.

Trade

I. Overall Dairy Products

Australia and New Zealand remain the key players in supplying dairy products to Taiwan. Owing to price and shelf-life constraints, U.S. fluid milk, milk powder or butter are not competitive and the market share is insignificant. U.S. dairy industry group's marketing endeavors have focused on those products that are competitive in this market, like cheese, whey powder or lactose.

In the past couple of years, with short supply and higher prices from the southern hemisphere suppliers, Taiwan buyers have begun to source the dairy supply of some specialty items from the U.S. Cheese imported from the U.S. accounted for 11% in 2006 and 2007 vs. 7% in 2004 and 8% in 2005. High prices in 2007 have generally reduced imports of dairy products.

II. Fluid Milk

Following Taiwan's WTO accession on January 1, 2002, imports of the formerly-banned fluid milk changed to be subject to Tariff Rate Quota (TRQ) and Special Safeguards (SSG)

controls. Fluid milk imports are primarily in UHT format, that is considered by most Taiwan consumers to be of lower quality and poorer taste than domestically produced fresh fluid milk. Except for very limited amount of organic milk for the high-end niche market, there has been no U.S.-originated fluid milk in the Taiwan market.

TRQ

The current 21,298 mt annual TRQ for fluid milk represents the final increase in Taiwan's WTO accession agreement. Taiwan administers the fluid milk TRQ under "System 2" rules, under which import rights are auctioned once a year. All importers and exporters registered with Taiwan's Board of Foreign Trade (BOFT) are eligible to bid on quota rights. There are no performance bonds and quota rights go to bidders who offer the highest prices. Quota allocation certificates serve as automatic import licenses for products imported under the TRQ. In November 2006, only 6,892 mt of the 21,298 mt 2007 TRQ was successfully sold to 9 companies. The demand has been low and importers reportedly were able to win the bid by only paying the non-refundable minimum tender operation fee (NT\$500/mt). The 2008 TRQ will be auctioned by the end of November 2007.

Total Imports of Fluid Milk (Unsweetened Milk/Cream under HS Code 0401)

Imports	Argentina	Australia	Germany	France	New	Uruguay	Others	Total
CY2006	249	3,226	539	2,336	3,822	797	73	11,042
1-8/07	181	277	426	1,566	2,722	302	79	5,553

Source: Council of Agriculture, based on Customs data

Fluid Milk Imported under TRQ (in mt)

Imports	Argentina	Australia	France	Japan	New Zealand	Uruguay	Total	TRQ Size
1-12/2006	249	3,224	16	7	2,490	797	6,783	21,298
1-9/2007	181	296	0	0	1,914	462	2,853	21,298

Source: Bank of Taiwan website

Note: The definition of dairy fluid milk as used in the PS&D table differs slightly with the "fluid milk" category placed under TRQ and SSG controls. By Taiwan's TRQ and SSG classification, fluid milk consists of mainly fluid cow milk products in the HS 0401, 0402 and 0403 tariff categories as well as several processed products fall under HS 1806 and 1901, but not goat/sheep milk.

The Ministry of Finance (MOF), which is responsible for the TRQ allocation, has entrusted the Central Trust of China (CTC), a public enterprise, to implement the TRQ application and allocation process. In July 2007, the CTC was merged into the Bank of Taiwan. All TRQ relevant information can be retrieved from the BOT website listed in the Reference Section at the bottom of this report.

SSG

The TRQ has, reportedly, not been fully filled due to low demand of imported fluid milk. Importers have the option of paying the in-quota duty (15%) with a TRQ certificate or paying the out-of-quota duty (NT\$15.6/kg, US\$480/mt equivalent). Fluid milk imported without TRQ certificate is subject to an additional 33.3% surcharge when the Volume-base SSG is

triggered. Fluid milk that is imported with a TRQ certificate is exempt from paying the additional duty.

The 3253.9 mt of the 2007 volume-based SSG for "fresh milk" was about 10 percent filled as of the end of October. The volume SSG on "other fluid milk", totaling 2881.2 mt, was triggered on October 15, 2007. In 2006, fresh milk SSG was triggered on December 18, 2006 and other fluid milk SSG was triggered on September 14, 2006.

There has been no record on whether or not the Price-base SSG (at NT\$17/liter) has been triggered.

Goat/sheep milk is dutiable at 20%, without any TRQ or SSG limits.

III. Milk Powder

For political concerns, agricultural products from China are generally prohibited unless they are on a positive list approved by the Taiwan authorities. Taiwan in early 2006 largely relaxed import restrictions on Chinese dairy products. As of October 2007, only fluid milk products remain on the prohibited list while other prepared and processed products are generally importable from China. With its cheaper prices, Chinese milk powder is catching up quickly in the Taiwan market. Trade data for whole milk powder, non-fat milk powder, processed milk powder and infant milk powder are tabulated below for comparison:

Chinese baby formulas do not sell well in Taiwan, probably due to its poor image of food quality.

Import Comparison of Whole Fat Milk Powder (in mt)

	Argentina	Australia	Belgium	China	Ireland	Neth.	New Zealand	Others	Total
CY2006	1,132	8,412	277	487	196	542	18,258	976	30,280
1-8/07	1,100	3,552	254	3,329	668	291	12,374	793	22,361

Source: Council of Agriculture

Import Comparison of Non-fat Milk Powder (in mt)

	Australia	Belgium	China	German	France	New Zealand	U.S.	Others	Total
CY2006	9,410	0	0	0	0	10,238	252	160	20,060
1-8/07	6,249	175	304	141	155	7,634	0	383	15,041

Source: Council of Agriculture

Import Comparison of Infant Milk Powder for Retail (in mt)

	Aus.	China	Ger.	Spain	France	Ireland	Neth.	New Zealand	Singapore	Others	Total
CY2006	579	645	633	768	839	506	2,002	1,046	1,340	515	8,873
1-8/07	258	364	514	619	758	200	1,184	803	987	221	5,908

Source: Council of Agriculture

Import Comparison of Prepared and Processed Milk Powder (in mt)

	Aus.	China	Den.	France	Ireland	Neth.	New Zealand	Singapore	Others	Total
CY2006	1,359	11,139	5,058	1,231	961	3,360	6,903	1,622	821	32,454
1-8/07	1,033	6,578	2,945	1,042	630	1,864	4,679	323	605	19,699

Source: Council of Agriculture

Imports of Cheese (in mt)

	Argentina	Australia	Brazil	Neth.	New Zealand	U.S.	Others	Total
2006	998	5,644	541	533	6,242	1,854	1,417	17,229
1-8/07	1,065	3,947	373	301	4,436	1,358	150	12,570

Source: Council of Agriculture

Imports of Whey Powder (in mt)

	Argentina	Australia	France	Nether-land	New Zealand	U.S.	Others	Total
2006	450	1,868	1,600	819	361	7,358	1,016	13,472
1-8/07	275	652	804	403	0	1,704	588	4,426

Source: Council of Agriculture

Imports of Lactose (in mt)

	Australia	Germany	Nether-land	New Zealand	U.S.	Others	Total
CY2006	108	813	762	1,021	4,018	173	6,895
1-8/07	120	535	317	192	2,830	3	3,997

Source: Council of Agriculture

Policy

Beginning from July 1, 2006, Guatemala joined Panama to be Taiwan's FTA counterparts and enjoys preferential import tariffs for many commodities including dairy products. However, there has been no trade recorded for dairy products from Panama or Guatemala.

In 2006, Taiwan ended its decades of Holstein-only import policy and began to allow imports of Jersey cattle. The introduction of Jersey cattle, with its high fat content in milk, is expected to help the development of a more diversified production of dairy products in the coming years.

Supply and Demand Tables

Fluid Milk Supply and Demand

	Dairy, Milk, Fluid						(1000 HEAD)(1000 MT)		
	2006	Revised		2007	Estimate		2008	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		01/2006	01/2006		01/2007	01/2007		01/2008	01/2008
Cows In Milk	51	51	52	50	50	53	0	0	54
Cows Milk Production	314	314	323	320	320	340	0	0	350
Other Milk Production	25	25	19	26	26	18	0	0	18
Total Production	339	339	342	346	346	358	0	0	368
Other Imports	13	13	11	12	12	10	0	0	10
Total Imports	13	13	11	12	12	10	0	0	10
Total Supply	352	352	353	358	358	368	0	0	378
Other Exports	0	0	0	0	0	0	0	0	0
Total Exports	0	0	0	0	0	0	0	0	0
Fluid Use Dom. Consum.	322	322	345	331	331	360	0	0	370
Factory Use Consum.	30	30	8	27	27	8	0	0	8
Feed Use Dom. Consum.	0	0	0	0	0	0	0	0	0
Total Dom. Consumpti on	352	352	353	358	358	368	0	0	378
Total Distributio n	352	352	353	358	358	368	0	0	378
CY Imp. from U.S.	0	0	0	1	1	0	0	0	0
CY. Exp. to U.S.	0	0	0	0	0	0	0	0	0

Nonfat Dry Milk Supply and Demand

	Dairy, Milk, Nonfat Dry						(1000 MT)		
	2006	Revised		2007	Estimate		2008	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		01/2006	01/2006		01/2007	01/2007		01/2008	01/2008
Beginning Stocks	0	0	0	0	0	0	0	0	0
Production	0	0	0	0	0	0	0	0	0
Other Imports	19	20	20	18	20	22	0	0	23
Total Imports	19	20	20	18	20	22	0	0	23
Total Supply	19	20	20	18	20	22	0	0	23
Other Exports	0	0	0	0	0	0	0	0	0
Total Exports	0	0	0	0	0	0	0	0	0
Human Dom. Consumption	19	20	20	18	20	22	0	0	23
Other Use, Losses	0	0	0	0	0	0	0	0	0
Total Dom. Consumption	19	20	20	18	20	22	0	0	23
Total Use	19	20	20	18	20	22	0	0	23
Ending Stocks	0	0	0	0	0	0	0	0	0
Total Distribution	19	20	20	18	20	22	0	0	23
CY Imp. from U.S.	0	0	0	0	0	0	0	0	0
CY. Exp. to U.S.	0	0	0	0	0	0	0	0	0

Dry Whole Milk Supply and Demand

	Dairy, Dry Whole Milk Powder						(1000 MT)		
	2006	Revised		2007	Estimate		2008	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		01/2006	01/2006		01/2007	01/2007		01/2008	01/2008
Beginning Stocks	0	0	0	0	0	0	0	0	0
Production	6	6	1	6	6	1	0	0	1
Other Imports	25	25	30	24	25	33	0	0	34
Total Imports	25	25	30	24	25	33	0	0	34
Total Supply	31	31	31	30	31	34	0	0	35
Other Exports	0	0	0	0	0	0	0	0	0
Total Exports	0	0	0	0	0	0	0	0	0
Human Dom. Consumption	31	31	31	30	31	34	0	0	35
Other Use, Losses	0	0	0	0	0	0	0	0	0
Total Dom. Consumption	31	31	31	30	31	34	0	0	35
Total Use	31	31	31	30	31	34	0	0	35
Ending Stocks	0	0	0	0	0	0	0	0	0
Total Distribution	31	31	31	30	31	34	0	0	35
CY Imp. from U.S.	0	0	0	0	0	0	0	0	0
CY. Exp. to U.S.	0	0	0	0	0	0	0	0	0

Butter Supply and Demand

	Dairy, Butter						(1000 MT)		
	2006	Revised		2007	Estimate		2008	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		01/2006	01/2006		01/2007	01/2007		01/2008	01/2008
Beginning Stocks	0	0	0	0	0	0	0	0	0
Production	0	0	0	0	0	0	0	0	0
Other Imports	12	12	11	13	0	13	0	0	14
Total Imports	12	12	11	13	0	13	0	0	14
Total Supply	12	12	11	13	0	13	0	0	14
Other Exports	0	0	0	0	0	0	0	0	0
Total Exports	0	0	0	0	0	0	0	0	0
Domestic Consumpti on	12	12	11	13	0	13	0	0	14
Total Use	12	12	11	13	0	13	0	0	14
Ending Stocks	0	0	0	0	0	0	0	0	0
Total Distributio n	12	12	11	13	0	13	0	0	14
CY Imp. from U.S.	0	0	0	0	0	0	0	0	0
CY. Exp. to U.S.	0	0	0	0	0	0	0	0	0

Import Tables

Butter Imports

Import Trade Matrix

Country	Taiwan	
Commodity	Dairy, Butter	
Time Period	CY2006	Units: mt, 1- 8/2007
Imports for:	2006	2007
U.S.	0	U.S. 0
Others		Others
Australia	1,422	Australia 1,000
Belgium	586	Belgium 271
Germany	227	Germany 77
Finland	0	Finland 244
France	614	France 736
Ireland	350	Ireland 467
Netherlands	519	Netherlands 345
New Zealand	7,296	New Zealand 6,157
Total for Others	11014	9297
Others not Listed	304	223
Grand Total	11318	9,520

Dry Whole Milk Imports

Import Trade Matrix

Country Taiwan
Dairy, Dry Whole Milk
Commodity Powder

Time Period

CY2006

Units:

mt, 1-
8/2007

Imports for:

2006

2007

U.S.

U.S.

Others

Others

Argentina	1132	Argentina	1100
Australia	8412	Australia	3552
Belgium	277	Belgium	254
China	487	China	3329
Ireland	196	Ireland	668
Netherlands	542	Netherlands	291
New Zealand	18258	New Zealand	12374

Total for Others

29304

21568

Others not Listed

976

793

Grand Total

30280

22361

Dry Nonfat Milk Imports

Import Trade Matrix

Country Taiwan
Dairy, Milk, Nonfat
Commodity Dry

Time Period

CY2006

Units:

mt, 1-
8/2007

Imports for:

2006

2007

U.S.

252

U.S.

0

Others

Others

Australia	9410	Australia	6249
New Zealand	10238	Belgium	175
		China	304
		Germany	141
		France	155
		New Zealand	7634

Total for Others

19648

14658

Others not Listed

160

383

Grand Total

20060

15041

Fluid Milk Imports

Import Trade Matrix

Country Taiwan
Commodity Dairy, Milk,
Fluid

Time Period	CY2006	Units:	mt, 1-8/2007
Imports for:	2006		2007
U.S.	0	U.S.	0
Others		Others	
Argentina	249	Argentina	181
Australia	3226	Australia	277
Germany	539	Germany	426
France	2336	France	1566
New Zealand	3822	New Zealand	2722
Uruguay	797	Uruguay	302
Total for Others	10969		5474
Others not Listed	73		79
Grand Total	11042		5553

Internet Resources

Most Taiwan (.tw) domain websites are only in Chinese, but the amount of English content is increasing.

<http://www.coa.gov.tw/> for agricultural statistics and general agricultural information (in English)

<http://www.trade.gov.tw> for trade statistics, exchange rates, trade rules and general trade information (English version available)

<http://www.wto.org> The WTO's website for information about Taiwan's WTO accession

<http://www.customs.gov.tw> for current tariff schedule (English version available), SSG and TRQ records

<http://www.bot.com.tw/Trade/TradeWTO/default.htm> for TRQ auctions